COMPASS™
RESTAURANT CONSULTING & RESEARCH

EOM Summary Report // June

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COMPANIES MENTIONED IN THIS REPORT:

CORE COVERAGE

*Charts on pages 4-23 "Mean" Source – Company Filings

SUMMARY OF INDUSTRY BUSINESS CONDITIONS:

SAME STORE SALES (SSS) (Includes Independents):

SSS/Traffic	
Total Industry-wide avg. SSS	<40.0%>
Total Industry-wide traffic	<41.3%>

- June top performers: Chili's, Domino's, Jack, Popeyes, Wendy's, Wingstop.
- June bottom performers: Applebee's, IHOP, Burger King, Chuy's, Longhorn, Olive Garden, Starbucks.

CONSUMERS, OPERATORS, & SUPPLY CHAIN PROVIDE THEIR TAKE:

- CONSUMERS:
  - Confidence improves by 5.8 points.
  - View of personal income improved by 6.4 points.
- OPERATORS:
  - Optimism improved by 3.5 points.
  - Restaurant Performance Index improved by 1.9 points.
- SUPPLY CHAIN:
  - Meat processing plants reopen but beef and pork prices skyrocket. (See notes on Commodities).
  - 80% of workers test positive at produce farm.

HEADLINE NEWS:

- Protests add to the Covid-19 drag on restaurant sales.
- New Independent restaurant coalition formed.
- Digital restaurant orders are up over 75% in June.
- U.S. economy added 4.8 million jobs in June and unemployment fell to 11.1%.

INDUSTRY NEWS:

- Attraction of LTO's indicate they are here to stay for a while.
- Meal Kits appear to have gained a position on restaurant menus – at least for the time being. Meal Kit business expected to reach $20 billion by 2027.
- Consumers prefer Curbside vs 3rd Party Delivery.
- Family Meal sales indicate they will be around for a while – when asked, 47% of consumers stated they preferred Family Meal Deals.

JULY OUTLOOK

- **Brands we expect to outperform the Industry**
  - Chili's
  - Domino's
  - Jack in the Box
  - Popeyes
  - Wendy's
  - Wingstop
- **Brands we expect to underperform the Industry**
  - Casual Dining sector

Please see Page 24 for Important Disclosures.

CONSUMERS – OUR TAKE FOR JUNE 2020:

	June	May
Consumer view of the economy	78.1	72.3
Consumer view of their personal finances	72.3	65.9

SOURCE: University of Michigan Sentiment Poll

Concerns:

- Covid-19 will reappear
- Health concerns
- Businesses doing the right things
- Trust becomes currency

Interesting results, consumer sentiment was strong in the first half of the month and slipped in the last ten days. Although the net total was still a significant improvement over May it appears this improvement in sentiment was related to various degrees of the economy opening back up resulting in more jobs and improved income.

The resurgence of the Virus will have an impact on consumer spending and confidence but not at the same degree experienced during the height of the Crisis.

Recent polls by Gallup (6/17/20) found that 66% of Americans remain worried about exposure to the Virus. Recent poll by Datassentials (6/26/20) found consumers avoidance of dining out has dropped from a high of 74% in late March to currently 47%. It appears the more consumers become knowledgable about the Covid-19 Virus the more avoidance of all social gatherings decline. The survey also found 73% of consumers are not comfortable going back to “regular” out of home activities.

Consumers have been spending primarily on essentials and seeking value with all purchases.

OPERATORS – OUR TAKE FOR JUNE 2020:

	Current	Prior
Optimism Index (NFIB)	94.4	90.9
Restaurant Performance Index	96.8	94.9
Fairly confident their business can get through this Crisis	61%	58%
Believe impact on their business will last 3-6 months (Beginning May and ending August/September)	48%	54%
Now majority (52%) believe the impact will last through the remainder of 2020.		

- The Restaurant Performance Index reported an improvement of 1.9% over last month which indicates a slight improvement in current situations (4 trends are measured: same store sales, traffic, labor, and capital expenditures). Expectations Index which measures operator outlook for the 4 indicators listed above was up 2.2% from 94.9% to 97.1%. Current Situation Index was up 1.6% from 92.8 to 94.3. However, a majority of operators do not expect sales to return to pre-Covid-19 levels this year.

- According to the NFIB, Small Business Optimism Index rose by 3.5 points from 90.9 in the previous month to 94.4. This was attributable to the reopening of the economy. Further findings from NFIB and National Restaurant Association surveys found a vast majority of business owners believe the return to business will come in phases.

- On Demand Pay growing in popularity.

- Concerns over frivolous lawsuits stemming from reopening dining rooms.

- Ghost Kitchen – interest rising.

SUPPLY CHAIN – OUR TAKE FOR JUNE 2020:

WHOLESALE COMMODITIES UPDATE	JUNE 2020	JAN 2020
Beef	$4.76	$4.40
Dairy	$2.82	$2.18
Pork	$3.57	$2.51
Poultry	$1.27	$1.25
Produce: Tomato/Lettuce	$22.00	$21.00
Basket	$6.74	$6.11
Gasoline – National Average	$2.20/Gal	$1.99/Gal

- While our overall Basket prices have risen due to the shortages and disruptions in the supply chain due to Covid-19; according to the USDA, prices are expected to come down to the pre Covid-19 price range – but probably not until early fall.

- Additionally, the USDA stated that beef and pork production is expected to reach 95% capacity during the next few weeks, easing price and supply pressure.

- Gasoline – National average for a gallon of gasoline rose 21¢ in June and is expected to remain under $3 through the summer.

INDUSTRY NEWS:

Protests have impact on restaurants foot traffic – A recent study by Technomic found a significant impact on restaurant foot traffic (see chart). The results were another blow to the sales recovery.

Select Cities	Week of 5/16	Week of 5/23	Week Over Week Change
Minneapolis	49	39	<22%>
Los Angeles	52	42	<20%>
New York	20	16	<22%>
Atlanta	54	46	<15%>
Chicago	57	49	<13%>
National	68	60	<12%>

A new Independent Restaurant Coalition has been formed. It is an activist organization designed to give Independent restaurant owneers a stronger voice to local, state, and federal governments. Previously, the only collective voice Independents had was through the National Restaurant Association. This new coalition was created to compliment rather than replace the National Restaurant Association's efforts. (The coalition is responsible for proposing the $120 billion Restaurant Stabilization Fund which is now before Congress.)

Produce workers testing positive for Covid-19. Over 80% of workers in Yakima, WA tested positive. This county is a hub of agricultural activity for produce. Earlier this month a produce farm in TN reported nearly 200 employees tested positive. CA, the leading state for produce, had numerous reported cases of Covid-19 among workers. All of this points to a potential price spike and produce shortage in the coming months.

Digital orders are up over 65% since the Covid-19 Crisis began in mid-March and 75% YOY for June. E-Marketer estimates more than 204 million people, ages 14 and older, will make online purchases this year and expect 5 million new digital users to be over the age of 45. A strong indication of Boomers becoming more comfortable with technology. 70% of consumers prefer using Mobile Apps to place orders.

U.S. economy added 4.8 million jobs in June. Job growth was the strongest in restaurants and bars reflecting the reopening of these establishments. They added 1.5 million of the 4.8 million jobs.

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